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THE CORPORATION OF THE CITY OF HAMILTON

**HOTEL MARKET ANALYSIS
AND FINANCIAL PROJECTIONS**

HAMILTON, ONTARIO

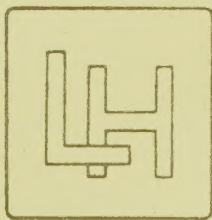
JUNE, 1981

**LAVENTHOL & HORWATH
MANAGEMENT CONSULTANTS**

PREPARED FOR:

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June 2, 1981

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WITH AFFILIATED OFFICES WORLDWIDE

Mr. Lou Sage
Chief Administrative Officer
Corporation of the City
of Hamilton
City Hall
Hamilton, Ontario
L8N 3T4

Dear Mr. Sage:

Pursuant to the terms of our engagement, we present on the following pages our report and financial projections for a proposed hotel development in the Lloyd D. Jackson Square in the City of Hamilton.

The conclusions, recommendations and projections of operating results contained herein pertain only to the location described under conditions prevailing at the time of field work, completed May 15, 1981. Since the report and financial projections are based on assumptions, estimates and forecasts, the reliability of which are dependent upon future events and transactions and the validity for which we cannot vouch, we do not guarantee their accuracy. They were, however, prepared based on available information and our experience in the hospitality industry.

We have prepared this report for your information and guidance. It is not to be referred to or quoted in any public communication or release without our prior written consent except that a complete copy may be presented to potential investors in the proposed hotel or to a hotel operating company.

This report should be reviewed from time to time to take into consideration local, provincial, national and international economic conditions, competitive developments and legislative changes affecting the hospitality industry.

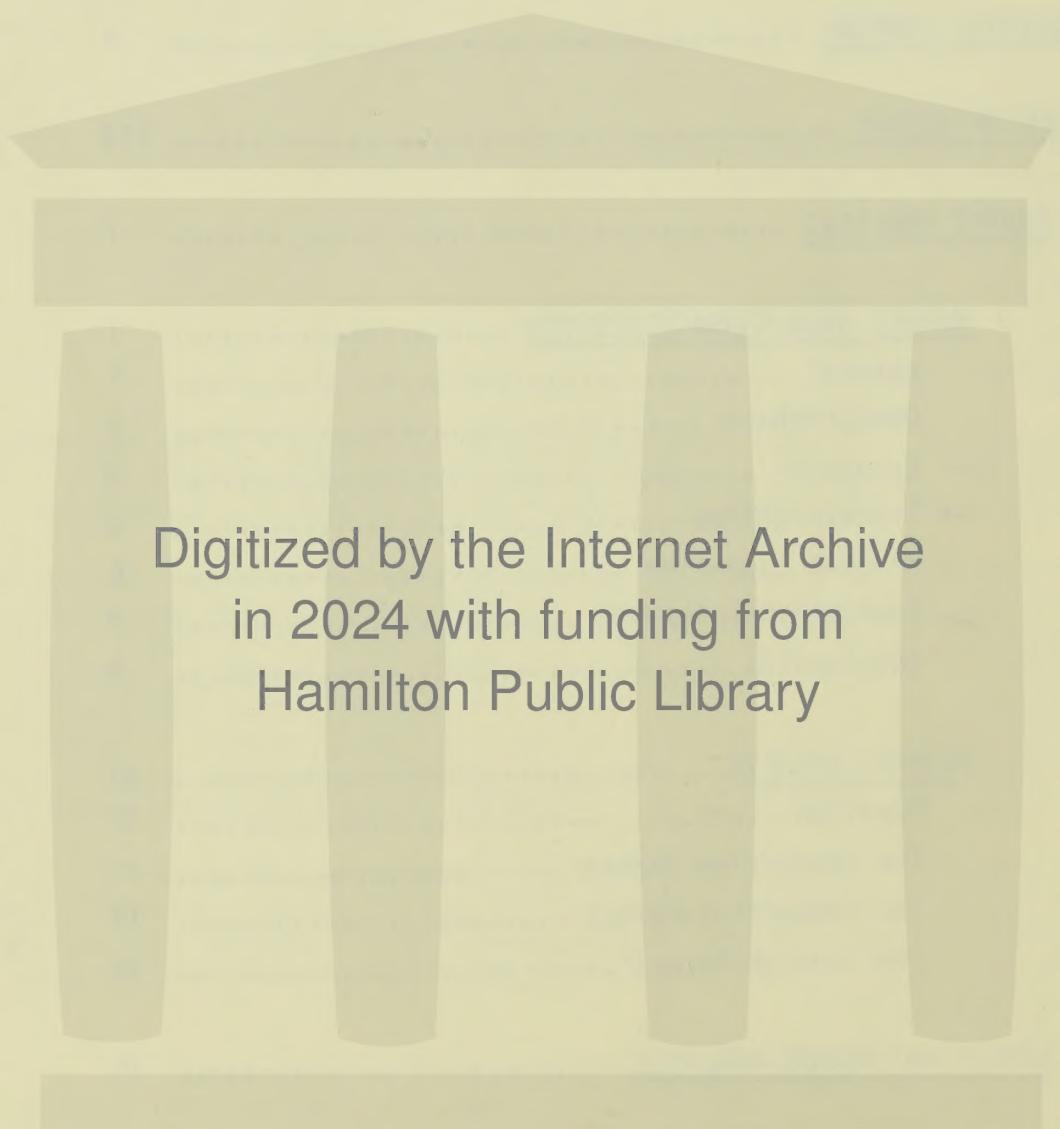
Yours very truly,

Laventhal & Horwath

LAVENTHOL & HORWATH

TABLE OF CONTENTS

	<u>Page</u>
<u>EXECUTIVE SUMMARY</u>	i
<u>SCOPE OF REPORT</u>	iii
<u>I. MARKET ANALYSIS</u>	1
• <u>MARKET AREA CHARACTERISTICS</u>	1
General	1
Demographics	2
— Economics	3
— Transportation	5
- Airport Expansion	6
— Economic Development	8
Conclusions	9
• <u>PRIMARY MARKETS</u>	10
Overview	10
The Convention Market	11
The Commercial Market	14
The Tourism Market	14
<u>II. SUPPLY AND DEMAND ANALYSIS</u>	16
• <u>SUPPLY ANALYSIS</u>	16
Primary Competition	16
Secondary Competition	17
New Hotels	17



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TABLE OF CONTENTS (cont'd)

	<u>Page</u>
• <u>DEMAND ANALYSIS</u>	17
Seasonality of Demand	17
The Convention Market	20
The Commercial Market	27
The Tourism Market	28
Projected Demand	29
Site Evaluation	30
 III. <u>FINANCIAL ANALYSIS</u>	 32
• <u>ESTIMATED OPERATING RESULTS</u>	32
• <u>ROOMS DEPARTMENT</u>	33
• <u>TELEPHONE DEPARTMENT</u>	34
• <u>FOOD AND BEVERAGE</u>	34
• <u>UNDISTRIBUTED OPERATING EXPENSES</u>	35

APPENDIX

EXECUTIVE SUMMARY

We have thoroughly reviewed the market for a new hotel in the City of Hamilton and, on the basis of that review, have formed the following conclusions.

The City of Hamilton is located in a highly industrial area in the centre of Ontario's Golden Horseshoe region. With a stable economic base and steady growth, further development can be expected during the forthcoming decade. These expectations result from:

- Major renewal in the downtown core, of which the proposed hotel is part;
- Increased availability and accessibility of serviced industrial and residential land;
- Major image and awareness promotion campaigns;
- Expanding economic diversification.

Business and government travellers, convention delegates and tourists form the three primary and growing markets for downtown hotel accommodation. The anticipated expansion of the market for convention delegates (a result of the Convention Centre) by itself warrants development of additional hotel facilities. It is our conclusion that a new first-class hotel is required in the downtown area if the City is to further attract non-local convention activity to support the new Convention Centre.

Current demand exceeds the capacity of the existing two hotels. In 1981, this shortfall was 15,673 room-nights (an increase of 145% in one year)

which is expected to increase to 50,000 by 1985. Despite the increase in demand, however, the combined rate of occupancy at the two existing hotels has remained stable at about 60%. The incongruence of unsatisfied demand and low occupancy is due to the city-wide seasonality of demand.

The commercial/government traveller and the convention delegate who, combined, form 90% of the demand are simultaneously looking for hotel rooms. As a consequence, there are many visitors unable to find accommodation during periods of high demand while, during periods of low demand, many rooms remain empty. This factor, known as the Maximum Effective Demand, can also be expected to affect occupancies at a new hotel.

As a result of the competitive advantage offered by a new 300-room hotel, however, we estimate that by its third year of operation it will have attained 14 percentage points or 10% above its pro-rata share of the market. Further, we estimate that by its seventh year, it will be operating at an occupancy level of 74%. This level of occupancy will provide a house profit of approximately 25% (after three years) from which must be deducted land rent, debt service, taxes, depreciation, and management fees.

SCOPE OF REPORT

This study was undertaken to determine the need for additional first-class accommodation facilities in the downtown business core and, if a need exists, to relate it to the development of the proposed site. Additionally, this study sought to determine and to recommend appropriate facilities and to develop an estimate of financial performance. Further, we were asked to determine what steps could be taken by the City of Hamilton to attract a first-class hotel to the Lloyd D. Jackson Square Development.

In conjunction with the above we have:

- Analyzed the proposed site and its environs in order to determine the suitability for the proposed development;
- Conducted an in-depth market analysis to determine the needs which the proposed hotel could fulfill and the special opportunities which it would present. Special attention was directed towards the Hamilton Convention Centre and the expansion of Hamilton Civic Airport;
- Recommended the size and type of facilities which would be most appropriate for the development;
- Prepared statements of estimated revenues and expenses for the first ten years of operation;
- Prepared a written report presenting our findings, conclusions and recommendations.

Specific functions have included visiting the site and its environs and undertaking a thorough analysis of available reports and other information relevant to current and proposed developments in the Hamilton-Wentworth region.

Additionally, our investigations included an analysis of hotel occupancies in the City and the ability of existing facilities to meet present and anticipated demand. We interviewed local businesspeople, government officials, hotel operators, and other interested and knowledgeable parties to discuss the future need for transient accommodation in the area. Commercial activity, convention and tourist travel, transportation facilities, commercial and industrial expansion, and other influencing factors were analyzed and evaluated.

I. MARKET ANALYSIS

MARKET AREA CHARACTERISTICS

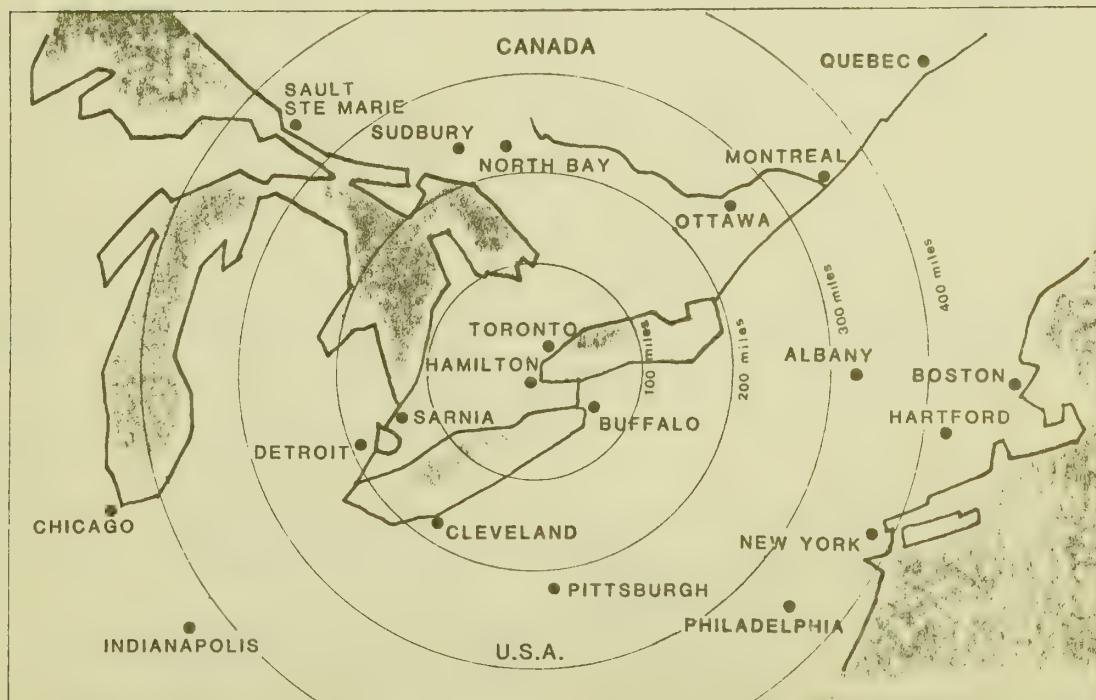
General:

City and Region

The City of Hamilton is the single largest of six area municipalities in the Hamilton-Wentworth Region, comprising approximately 75% of the Regional population.

Centrally Located

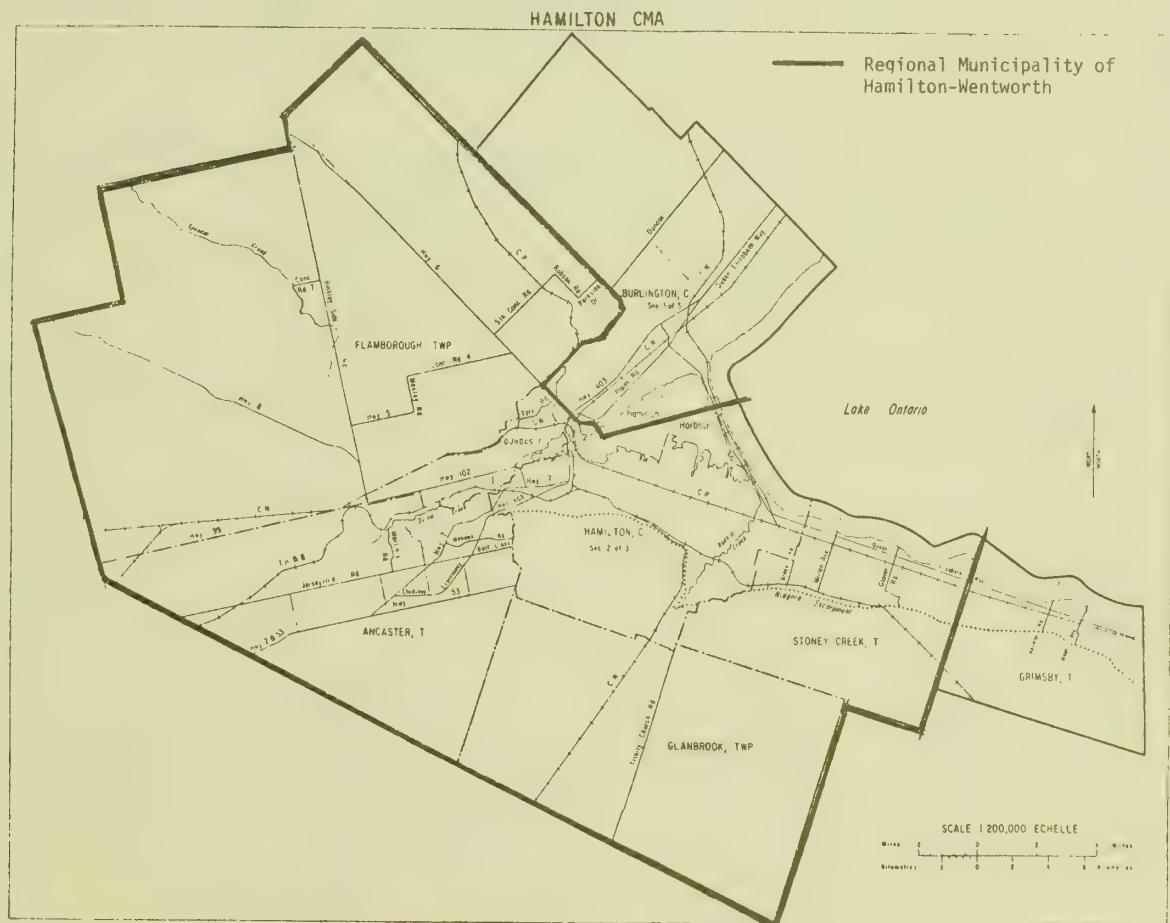
Located at the most western point of Lake Ontario, Hamilton has developed as a major industrial centre serviced by a substantial infrastructure. Moreover, its location is at the hub of an international transportation system with a concentration of proximate major Canadian and U.S. population and industrial centres.



Demographics:

Hamilton CMA defined

The Hamilton Census Metropolitan Area encompasses, in addition to the Regional Municipality of Hamilton-Wentworth, the City of Burlington and the town of Grimsby.



A large population

With a 1980 population of 536,200, the CMA had more than 2.2% of Canada's residents, ranking as the eighth largest metropolitan area.

Rate of growth

The annual rate of population growth has been 1.3% between 1976 and 1980. With the recent development and improved accessibility of land on the escarpment, the rate of growth is expected to increase.

Economics:

Stable foundation Manufacturing industries form the base of the local economy. Primarily involved in the production and fabrication of steel and steel products, the Hamilton area is 90% above the national average in industrial value added per capita.

Economy is diversifying Through a substantial marketing and industrial relocation support campaign, this base is being diversified. Light industry, including computer and aerospace manufacture, is being specifically promoted.

Employment mix changing Dramatic growth has, however, already occurred in the service and public administration sectors and further growth in these sectors is expected.

EMPLOYMENT BY INDUSTRY

	1971	1979	Growth Percentage
Agriculture	3,140	3,000	(4.5)
Manufacturing	69,095	81,000	17.2
Construction	13,245	14,100	6.4
Transportation and Communications	9,580	13,000	35.7
Trade	30,780	40,500	31.6
Finance, Insurance & Real Estate	7,870	9,600	22.0
Personal Service Ind.	47,070	76,850	63.3
Public Administration	7,055	11,750	66.5
Other	1,935	3,200	65.4
TOTAL CMA	189,770	253,000	33.3

Source: Statistics Canada, 1971 Census
Economic Development Department, Regional
Municipality of Hamilton-Wentworth

Participation rates	The work force participation rate in Hamilton - Wentworth has increased during the 1970's to stand 1.1% above the national average of 65.0%.
Unemployment	Unemployment trends have traditionally run counter to those of the national rate, e.g. the rate declined from 5.7% in 1971 to 5.4% in 1976, and to 4.2% in 1977 while during the same period, the Canada-wide rate increased from 6.4% to 7.1%, to 7.9%. This pattern is principally a result of the hiring and work allocation practices of the steel-based companies. At the time of economic slowdown, work is decreased in branch plants, with the remaining work reassigned to the main plants in Hamilton.
Per Capita Income	Of the 23 Census Metropolitan Areas in Canada, the Hamilton region ranks tenth in projected personal disposable income for 1981. By so doing, it surpasses the average for both Canada and Ontario.

	<u>Canada</u>	<u>Ontario</u>	<u>Hamilton CMA</u>
Personal Disposable Income - 1980 (\$mill)	\$191,387	\$74,900	\$ 4,944
A % of Canadian Total	100.0%	39.1%	2.6%
Per Capita	\$8,011	\$8,743	\$9,221
Projected Per Capita 1981*	8,747	9,593	10,114
Projected Per Capita 1984*	11,388	12,480	13,155

* In current dollars

Transportation:

Region served by, The region is served by a well-developed and expanding transportation network.

... highway The Queen Elizabeth Way, a major 90-mile, multi-lane expressway between Toronto and Buffalo, N.Y., passes the City to the south. The controlled access Highway #403 passes through the western part of Hamilton. The area is also served by several other provincial highways. Proposed highway developments include construction of the Industrial Perimeter Road connecting the industrial area directly with Highway #403, as well as the East-West Freeway to service the area above the escarpment.

... rail Commercial and passenger rail links are provided to both eastern and western Canada as well as to Buffalo and Detroit.

The commuter GO service currently provides four trains to Toronto daily, with hourly service projected for the future.

... port With a capacity of 15 million tons, Hamilton Harbour has the largest capacity of any port on the Great Lakes. This capacity is to be further increased with the present expansion scheduled for completion in 1983.

... rapid transit Intermediate - Capacity Rapid Transit (ICRT) is expected to travel between the Central Business District and the new Lime Ridge Mall located on the escarpment. Planned as a demonstration project for the new concept in light rapid transit, it will be integrated with a new inter-city bus terminal.

Airport Expansion:

Special discussion The dramatic changes in air service to the area warrant extended discussion.

Current service Located at Mount Hope, 15 kilometres southwest of the downtown core, the Civic Airport currently provides daily flights to Montreal, Ottawa, Pittsburg, and Windsor. Since 1975, the passenger counts have increased at an average annual compound growth rate of approximately 7%.

<u>Passenger Type</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Scheduled	91,000	89,000	96,100	108,200	114,400
Charter	N/A	N/A	N/A	N/A	5,000
Total	91,000	89,000	96,100	108,200	119,400

Expansion planned In 1980, the Federal Government announced Cabinet approval of a major expansion to the flight and terminal facilities at the airport. With the cancellation of the second Toronto Airport at Pickering, the Hamilton Civic Airport expansion will be significant to passenger air movements in southwestern Ontario.

It will include With the acquisition of 390 acres of adjacent land, re-development at the airport is presently underway. When completed in 1985, the facilities are expected to include a new 8,000 foot by 200 foot runway with improved infield and taxiways, installation of a new instrument landing system for safe, all-weather, aircraft landing and take-off, a new 30,000 square foot passenger terminal, and other facilities.

Means more passengers

These facilities will significantly increase the capacity of the airport; capacity to be used both to improve scheduled service between Hamilton and other cities and to divert charter flight traffic from Toronto International Airport.

EXPECTED GROWTH

<u>Passenger Type</u>	<u>1979</u>	<u>1986</u>	<u>1991</u>
Scheduled	114,400	300,000	435,000
Charter	5,000	200,000	265,000
Total	119,400	500,000	700,000

Source: Transport Canada

... new routes, carriers The above Transport Canada estimates are based on a 1985 completion of the re-developed airport. They presuppose continued Nordair service to Montreal, Ottawa, Pittsburg, and Windsor as well as additional service to other cities in Canada and the Northeast U.S. Specific carrier and route information is not yet available but Air Canada is expected to fly to at least Winnipeg and Chicago. Passenger volumes on the scheduled flights are anticipated to increase by 162%, with the majority of this increase occurring after re-development is completed in 1985.

Charter growth

The charter flights will be a new source of major passenger volume to the Hamilton Airport. These flights, intended to reduce the volume of traffic at Toronto International, are expected to primarily serve the Caribbean and Florida.

Economic Development

Steel production

Steel production and the related industries will continue to be the mainstay of the local economy despite greater emphasis on light manufacturing and the service sectors. Producing some 54% of Canada's steel, the region's two major employers, Stelco and Dofasco, are confident about the future. Through diversifying their markets, these companies expect to increase output by 5% in 1981 with further major sales as the mega-projects related to Canada's energy self-sufficiency program begin.

More industrial land

With the adoption of the Official Plan for the Region, some 4,000 acres of serviced industrial land will be made available for industrial expansion. Primarily located in Stoney Creek and Glanbrook, the land will be released at a rate which will provide a constant availability of 500 acres at any one time. This will offset the recent shortfall in available land and should promote more rapid industrial expansion. Despite the recent shortage in available land, the value of industrial, commercial, and institutional building permits has dramatically increased at an annual rate of 24.3% between 1978 and 1980.

Image enhancement

To further encourage industrial development, especially through corporate relocations to the area, the Regional Municipality of Hamilton-Wentworth (RMHW) has recently undertaken an aggressive marketing program. With a 1981 budget in excess of \$250,000, this program of image enhancement and awareness is targeted at tourism and conventions as well as industry. This promotion campaign is being co-ordinated with that of the Hamilton

Convention Centre which is also budgeted at \$250,000 for 1981.

Diversifying economy

Within the Hamilton-Wentworth Region, 145 newly-formed companies and company relocations from outside the Region added almost 2,000 employees during 1979 and 1980. Of the 70 businesses arriving in 1980, the majority (over 40) were in the service industries while 20 were in light manufacturing.

Lime Ridge Mall

The opening of the Lime Ridge Mall in August, 1981 will add over one million square feet of leasable retail space to the current inventory. This major retail development on the escarpment will generate 2,500 new jobs.

Federal Centre

The Centre for Occupational Health and Safety, a Federal research and study facility, is expected to move to new premises in the McGregor Clinic in Hamilton. The Centre monitors and maintains records of health and safety in the Canadian workplace.

Conclusions:

Good location,

Hamilton's location places it at the geographic centre of other major Canadian and U.S. population and industrial areas. Capitalizing on this location is the transportation infrastructure.

and transportation network

Although well-developed, both inter and intra regional networks continue to undergo refinement and development, thereby providing convenient access to and from other markets.

A major industrial area Hamilton and the surrounding communities form one of Canada's major industrial regions. This position has developed with steady growth based on a stable economic foundation.

Further growth expected Well-funded programs are currently underway to promote industrial, convention, and tourist awareness and interest in the area. Combined with increases in the availability of serviced industrial land and the increasing accessibility to reasonably priced residential lots, the area can be expected to experience further development.

PRIMARY MARKETS

Overview:

Three primary markets Transient hotel accommodation in the City of Hamilton services three primary market segments:

Market share/occupancy	Market	% of Total 1980 Demand	% of Total 1980 Occupancy
	Commercial/Government	60.4	37.2
	Convention	29.6	18.2
	Tourism	10.0	6.2
		100.0%	61.6%

Consistent performance The percentage of total demand attributed to each of the three markets (that is, their "market share") has remained quite consistent for a period of years.

PERCENT OF TOTAL ANNUAL DEMAND

<u>Market</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Comm/Gov.	61.3%	61.6%	60.4%	60.4%
Convention	28.7	28.4	29.6	29.6
Tourism	10.0	10.0	10.0	10.0
	100.0%	100.0%	100.0%	100.0%

Likewise, the annual occupancy for downtown accommodation has remained somewhat stable.

PERCENT OF TOTAL ANNUAL OCCUPANCY

<u>Market</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Comm/Gov.	37.0%	35.1%	35.8%	37.2%
Convention	17.3	16.2	17.6	18.2
Tourism	6.0	5.7	5.9	6.2
	60.3%	57.0%	59.3%	61.6%

The Convention Market:

A growth market

The number of conventions held in Hamilton has grown since 1977 by almost 77%.

<u>Convention Origin</u>	<u>NUMBER OF CONVENTIONS</u>			
	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Canadian	N/A	83	84	113
U.S.	N/A	21	23	19
International	N/A	6	6	4
Total	77	110	113	136

Source: Canadian Association of Convention Bureaux
Economic Development Department, RMHW

More delegates

More significant to a proposed hotel, however, is the growth in the number of convention delegates; showing a 37% increase since 1978 with an increase of over 24% occurring between 1979 and 1980.

<u>Convention Origin</u>	<u>NUMBER OF DELEGATES</u>		
	<u>1978</u>	<u>1979</u>	<u>1980</u>
Canadian	28,842	31,176	43,675
U.S.	9,244	10,600	9,372
International	970	1,250	594
Total	39,056	43,026	53,641

Outperforms Ontario

When compared to the combined results of a selected sample of Ontario cities, the past year's performance in delegate growth is favourable.

GROWTH BETWEEN 1979-1980

<u>Hamilton</u>		<u>Ontario</u>	
<u>Conventions</u>	<u>Delegates</u>	<u>Conventions</u>	<u>Delegates</u>
20.4%	24.7%	26.9%	18.9%

"Two-edged sword"	The data implies a growth in the average delegate count which, for Hamilton, will be a "two-edged sword". Although, an increase in the average number of delegates will imply greater inflows of revenue, there is also an increase in accommodation demand; a demand which, in 1980, dramatically outstripped the supply of hotel rooms.
The Convention Centre	With regular operations started in May 1981, the Hamilton Convention Centre is Canada's newest convention facility. With over 40,000 square feet of exhibit and banquet space, plus 15 meeting rooms of multiple sizes, the Centre is part of Hamilton's major re-development, the 43-acre Lloyd D. Jackson Square.
Purpose of C.C.'s	Construction of special purpose convention facilities is a relatively recent development in Canada. The primary objective of convention centre development in the introduction of significant cash flow from the visiting delegates into a community.
10 new centres	Currently, there are ten new convention centres in planning or construction phases throughout Canada. It follows that competition for the convention market can be expected to become quite strong.
Promotion and rooms, a MUST	This development underscores the need for an active and effective promotion campaign by the Hamilton Convention Centre and for the availability of sufficient hotel rooms of appropriate quality.
Can fill 40% of hotel	It is our experience, however, that a hotel cannot depend on conventions as its sole market. We have determined that no hotel can expect to receive more than

40% of its annual occupied rooms from convention delegates.

The Commercial Market:

The market

The commercial and government traveller is the major source of business for the existing downtown hotels, accounting for 37.2% of the total rooms occupied. Hotel operators traditionally guarantee room availability for this market even at the possible loss of convention delegates.

City-wide importance

Based on discussions with City motel operators, it is evident that the commercial/government travellers are as important to the motels as they are to the downtown hotels. There is also indications that many such travellers transacting business in Hamilton find accommodation outside of the City. In part, this is because of the current quantity or perceived quality of available accommodations.

Proximity to Toronto

Proximity to the Toronto hotels, and particularly those on the Airport Strip, has and can be expected to continue to provide an alternative to Hamilton accommodation. This alternative is, we estimate, partly pursued as a result of the available quality and quantity of hotel accommodation in Hamilton.

The Tourism Market:

Smallest market

The tourism market has provided, at 10%, the smallest segment of room-night demand to downtown hotels. This contrasts dramatically with the experience of motel

operators in the area who view tourists as a second and very important market, providing 30% to 35% of their business.

More tourists in area

The Economic Development Department of the Regional Municipality of Hamilton-Wentworth indicates that tourist counts increased by 20% during 1980. Further, they project additional growth of 20% in 1981 and 10% in 1982.

Don't stay in hotels

The historical growth, however, has not been reflected in increased room-night demand in the downtown hotels. Since 1978, they have reported a marginal 4% annual increase. These patterns evidence a preference of the existing tourists to Hamilton for the less expensive, more car-oriented facilities.

New tourist markets

The image enhancement and awareness program being pursued by the Economic Development Department of the RMH-W could assist in developing these opportunities as will the proposed HAMILTON-SCOURGE project. This "world-class" museum and study centre is expected (by the Hamilton-Scourge Foundation) to attract 300,000 persons per year to Hamilton.

Museum for two warships

The museum is planned to house two U.S. ships of war which sank during the War of 1812. These ships, the HAMILTON and the SCOURGE, went down in 300 feet of water six miles off Port Dalhousie in Lake Ontario.

Vessels to be raised	The vessels were recently discovered and determined to be in excellent condition. The City of Hamilton has acquired title to both ships and, through the Hamilton - Scourge Foundation, intends to raise and display them in the specially built museum at Confederation Park in 1983.
A similar idea	The concept resembles that of the WASA in Sweden. This warship was raised in the 1970's and currently attracts a world-wide annual audience of 400,000 persons.

II. SUPPLY AND DEMAND ANALYSIS

SUPPLY ANALYSIS

Primary Competition:

Holiday Inn	Opened in 1966, the Holiday Inn is located on King Street, within one kilometre of Jackson Square. It typically has the higher annual occupancy level of the two downtown hotels.
Royal Connaught	Originally built in 1916, an addition was constructed in 1926. Standing next to the Holiday Inn, occupancies declined when the newer hotel opened and continued to suffer as its own physical plant deteriorated. A major \$7 million renovation was undertaken by new owners in 1973 and has been followed by additional refurbishing; including \$1.5 million planned for 1981. Occupancy levels have improved in recent years to stand at approximately 60% in 1980.

Competing facilities	<u>Royal Connaught</u>	<u>Holiday Inn</u>
Opened	1916	1966
Rooms	222	231
Coffee Shop - Seats	90	96
Dining Rooms - Seats	140	108
Banquet	800	850
Cocktail Lounge	200	120
Bar	60	50
Market Mix - Commercial	55%	65%
- Convention	35%	25%
- Tourist	10%	10%

Secondary Competition:

Motels The City Motor Hotel and the Town Manor Motor Hotel are both located outside of the downtown core and offer lower priced accommodation to commercial travellers and tourists.

New Hotels:

No Commitments We have been unable to identify definite commitments to new hotel development. We are aware, however, of proposals that have been directed at the Lloyd D. Jackson Square site.

DEMAND ANALYSIS

Seasonality of Demand:

The consistency in both sales mix and occupancy discussed in the Overview of PRIMARY MARKETS is

attributable to seasonality of demand and the resulting pattern of demand.

Stable pattern

Along with other commodities, hotel rooms are subject to a pattern of varying demand. This variance will result from the weather, a special event, and a multitude of other factors. The impact of these factors can be very difficult to establish. However, over a period of time, an identifiable trend in general demand tends to occur.

...by season

In Hamilton, the annual trend is for a very low occupancy from mid-December to mid-February, with a secondary decline during July and August. The following exemplifies this pattern (the data represent combined occupancy levels over a two-year period):

Occupancy Levels by month	J	F	M	A	M	J
	44%	51%	63%	63%	63%	58%
	J	A	S	O	N	D
	44%	51%	66%	67%	68%	42%

...by day-of-week

Further, demand also varies throughout the week. In Hamilton, hotel operators report low occupancies on the weekends no matter what month of the year.

Maximum Effective Demand

The pattern of demand in any hotel establishes a practical limit to the maximum occupancy. In successful hotels, this "maximum effective demand" (MED) is acceptably high and permits the economic viability of the property. Typical in such hotels, the market segments have patterns of demand which complement each other; the tourist demand increases as the commercial subsides; a resort demand, composed of local residents, offsets the normally slow weekend period, etc.

MED in Hamilton

This complementary pattern of demand is less apparent in Hamilton. Rather, the two major sources of business (commercial and convention) vie for space at the same time of the year and week. As a result, it is not uncommon for the two existing hotels to be turning guests away during certain periods and to be virtually empty at other times.

An example

To underscore the problem, there are currently (450 guest rooms X 365 days) 164,250 room-nights available in Hamilton during the year. We have determined that in 1980 there were 123,250 potential room-nights. If all potential guests were accommodated, the City would have had an annual occupancy of 75%. However, only 101,560 found space in the two hotels; the remaining 21,690 had to find other accommodation. The primary reason was that they were pursuing rooms which were already rented.

Impact on new hotel

As the pattern of demand is a characteristic of the City and is identifiable in both downtown hotels, we must conclude that it will have an impact on a new hotel.

Can it be changed?

By its nature, the seasonality of demand is not easily or quickly changed. Individual hotels and the City can re-shape existing trends through influencing the existing and/or potential markets. Promotion campaigns could attempt to increase the volume and duration of weaker markets or to change the preferred time of the stronger markets. For example, the summer tourist market for downtown hotels may be developed while conventions could be encouraged to meet on weekends. It is quite conceivable that the new Convention Centre will introduce changes in the pattern of delegate demand which will positively affect the maximum effective

demand. Such a change could improve the occupancy levels, and thus the economic viability, of all downtown Hamilton hotels.

The Convention Market:

1980 delegate-nights

From data supplied to us by the Canadian Association of Convention Bureaux (CACB) and by the Regional Municipality of Hamilton-Wentworth, we have determined that the 53,641 delegates generated 128,738 delegate-nights in 1980.

Required 45,765 room-nights

The place of origin of the delegates was determined; that is, were they local residents, U.S. residents, etc., and the resulting need for downtown hotel accommodation was derived. With the influences reducing room-night demand being considered; i.e. delegates staying at McMaster and multiple delegates to a room, we calculated that 45,765 hotel room-nights were required by convention delegates in 1980.

Not enough rooms

The two downtown hotels were able to accommodate only 30,092 of that number, leaving 15,673 in unsatisfied room-night demand. These room-nights represent 6,530 delegates, or over 12% of all convention delegates.

The following table will illustrate the significance of unsatisfied room night demand upon the need for additional hotel rooms in the downtown core.

	<u>1978</u>	<u>1979</u>	<u>1980</u>
No. of Delegates	39,056	43,025	53,673
- Growth	10.2%	24.5%	
Convention Room-Night Demand	32,612	35,339	45,764
- Growth	8.4%	29.5%	
Satisfied Room-Night Demand	26,661	28,944	30,091
- Growth	8.6%	4.0%	
Unsatisfied Room-Night Demand	5,951	6,395	15,673
- Growth	7.5%	145.1%	

A growing problem

As can be seen, the rate of unsatisfied demand accelerated considerably in 1980. This suggests to us that the current downtown properties are approaching their maximum convention capacity (subject to the seasonality of convention demand).

Where did they stay?

Those delegates not finding accommodation in the downtown hotels would have been forced to stay elsewhere. In discussions with hotel operators and other knowledgeable individuals, it appears that such delegates find other hotel space in an area from Toronto to Niagara Falls or in local motels. It must be emphasized that such alternatives are a secondary choice; the preference would be a convenient, quality, downtown Hamilton hotel.

Conferences not included

The above statements and data refer only to conventions as defined by the CACB. It does not include

corporate conferences which will exercise additional demand. We have not attempted to quantify this separate market but a statistic published by Meetings and Conventions Magazine describes the extent of the North American potential. Of all meetings and conventions held, conventions represent only 19% of the total.

Convention Centre
Impact

The new Convention Centre will influence the Hamilton convention business with respect to the number of conventions held as well as the delegate count. There is expected to be an increase in the average size of conventions. The following table highlights similar impacts on three cities in which new convention centres all opened in 1974.

Impact on new Convention Centres in:	<u>Year</u>	<u>No. of Conv.</u>	<u>Growth (Decline)</u>	<u>No. of Dele.</u>	<u>Growth (Decline)</u>	<u>Avg. No. of Dele.</u>
...Winnipeg	1973	165		39,172	3.0%	237
	<u>1974</u>	235	42.4%	68,246	74.0	290
	1975	212	(9.0)	81,084	19.0	382
	1976	190	(10.0)	67,000	(17.0)	353
...Quebec	1973	73		29,430		403
	<u>1974</u>	94	28.8%	43,816	48.9	487
	1975	164	74.5	64,187	46.5	391
	1976	155	(5.5)	85,000	32.4	548
...Calgary	1973	161		52,000		323
	<u>1974</u>	167	3.7%	72,000	38.5%	431
	1975	244	46.1	84,000	16.7	344
	1976	N/A	-	N/A	-	-
- - - - -						
...Combined	1973	399		120,602		302
	<u>1974</u>	496	24.3%	184,062	52.6%	371
	1975	620	25.0	229,271	24.6	370

Growth today not as fast

We do not suggest that either the dramatic short-term growth, or the partial decline experienced by these cities will be replicated in Hamilton. The general economic conditions of the communities, quality of

management, competitive factors and many other issues serve to dissuade direct comparison. They are, however, indicative of an expansion in the number of visiting delegates.

Growth in Hamilton

It is our expectation that Hamilton will experience an increase in the number of both conventions and delegates during the next few years. We do not expect the increase to be as dramatic as previously indicated in other cities but neither do we expect a significant decline in the delegate count. It is our opinion that the increase in competing facilities in other communities will stimulate a problem of over-supply by 1985/1986. We anticipate that at that time Hamilton may reach a level of limited growth in the convention market.

Other factors

Apart from the Convention Centre and the general convention market, other factors were considered as we determined future convention demand for hotel rooms.

...the airport

The expansion of the Hamilton Airport, scheduled for 1985, should facilitate attendance by delegates from more distant locations. As the carriers serving the airport and their routes have not, as yet, been established, we are not able to accurately quantify the impact on delegate counts. We expect, however, that the expansion should help offset any decline in attendance resulting from increased convention competition.

...the U.S. Bill 5973

In February 1981, the U.S. Bill 5973 reversed the 1977 income tax restriction on the deductability of expense incurred by U.S. residents attending conventions held

outside the United States. This will make Canadian venues more attractive to U.S. convention planners and suggests a potential increase in American business. This increase will probably not be felt before 1983 given the normal two year convention planning lead time. Prior to 1977, as many as 30% of convention delegates in Canada were from the U.S.

...Late start

As referred to above, conventions (particularly those with large delegate counts) are typically planned well in advance of their occurrence. In some cases, this lead time can be as much as four years although it is frequently a minimum of one year. The active marketing of the Hamilton Convention Centre, however, began in the latter part of 1980. Consequently, we believe that the true level of activity will not be evident until 1982/1983.

Tentative Bookings

Information obtained from both the Convention Centre and the Economic Development Department indicate that conventions bookings include a proportion that are subject to the availability of a new hotel. Further, these are indications of other convention planners who will not book space until new hotel facilities are in place. Some cancellation of conventions has also occurred due to the lack of hotel facilities.

Trade shows

In addition to the hotel room demand generated by conventions, there is a more subtle but significant demand by trade shows. This demand is primarily generated through exhibitors. Frequently, demand is from out-of-town exhibitors, but the local participants have requirements for reception suites.

Room-night demand

As derived from all the factors discussed above, and projections of convention bookings prepared by others, the following is our estimation of the growth in the number of convention delegates visiting Hamilton and the resulting hotel accommodation demand during the next 14 years. It assumes that a new 300-room hotel operates for its first full year in 1985. Should a hotel not materialize, we anticipate that the number of delegates would not attain the levels shown:

<u>Year</u>	<u>Delegates*</u>	<u>Required Hotel Room Nights**</u>	<u>Unsatisfied Demand</u>
1980	53,641	45,767	15,673
1981	61,685	53,620	23,520
1982	70,935	63,045	32,495
1983	78,030	69,735	39,635
1984	83,490	75,120	45,020
1985***	87,665	80,415	6,315
1986	85,910	78,190	4,090
1987	88,490	81,465	7,360
.			
.			
.			
1994	88,490	81,465	7,360

* 1980 delegate count is derived from the 1980 Convention Survey made by the Canadian Association of Convention Bureaux, and forms the base of projected growth.

** Delegates who, by their own preference, elect to stay at a facility other than a downtown hotel have been deducted.

*** Assumed first full year of operation of a new 300 room downtown hotel.

High season

Based on convention bookings from 1979 and 1980 as supplied by the Economic Development Department of RMHW, we have determined that the following months have particularly high rates of delegate visitation to Hamilton.

	<u>April</u>	<u>May</u>	<u>June</u>	<u>August</u>	<u>October</u>
Percentage of delegates	9.7%	22.0%	12.2%	26.0%	10.8%

Source: Economic Development Department of RMHW

Will cause over-demand

These high rates of attendance will exceed the additional hotel room capacity introduced by a new 300-room property. This additional demand is reflected in the "Unsatisfied Demand" column of the above table. Due to the pattern of convention demand, it would not be economically viable to construct the facilities necessary to accommodate these delegates.

Arena/Trade Centre

The impact of the proposed Arena and Trade Centre has not been directly considered in this study. Although it is evident, however, that a development of 60,000 square feet of exhibition space will increase hotel demand, the extent of that impact cannot be determined within the scope of the current study.

The Commercial Market:

Recent growth

The commercial market for downtown hotels has demonstrated limited growth during the past few years but the extent of further growth will depend upon the room demand of the convention delegates. Although the room demand of the commercial/government traveller is

more evenly distributed throughout the year than is the demand of convention delegates, conflict is apparent in their demand patterns. A further factor is the weekly pattern of demand which, for the businessman, is very low on weekends.

Future growth

Future growth in this market must reflect the industrial and market factors discussed previously as well as the apparently large size of the current market. Based on these considerations, we estimate that future room-night demand will increase by 1,700 per year.

Airport impact

The airport expansion will, we believe, have little impact on the commercial market. We would, however, anticipate a possible increase in the volume of executive travellers. These expectations are based on the increased ease of access and egress to and from the area.

Unsatisfied demand

It is our opinion that seasonality of demand from this market, combined with the expansion of the convention market, has resulted in unsatisfied demand. As with convention delegates, these potential guests are forced to occupy hotel rooms in Burlington and Toronto as well as the local motels. We estimate the level of this demand to be 10% of the satisfied guests, or 6,000 room-nights.

The Tourist Market:

Best growth potential

The primary period of demand for this market segment is the summer months of June, July, and August; all months of low occupancy for the downtown hotels. As such,

this market offers considerable opportunities for improving the overall city room occupancy statistic.

Future growth

We have estimated that future growth for this tourist market in the downtown hotels will maintain the annual 4% growth rate.

New source of demand

The airport expansion will, we estimate, provide a rather substantial increase in over-night tourist demand. The source of this demand will be the charter flights to the Caribbean and Florida. We have determined that a proportion of these travellers normally require accommodation either before or following their flights. This requirement results from the arrival and departure times of some of these flights being either early in the morning or late at night, thereby precluding convenient travel between their homes and the airport.

5,000 more nights

We estimate that this will result in approximately 5,000 additional room-nights demand per year.

Other airport impacts

As both carrier and route information is still not available, we have been unable to estimate other impacts of the expansion on tourist room-night demand.

Projected Demand:

Total of all demand

Combining the estimated requirements of the above market segments, we have developed an estimate of the room-night demand satisfied by downtown hotels, including a new 300-room property.

Pro-rata share

A new 300-room hotel would increase the inventory in the city to 750 guest rooms. Its pro-rata share of the market would, therefore, be 40%. The quality of the new hotel, however, will be perceived to be greater than either of the two existing properties. As a consequence, we expect that the new facility would perform slightly better than its pro-rata share. The following table summarizes our estimate of demand for the proposed 300-room hotel:

<u>Year</u>	<u>Satisfied Demand</u>	<u>Proposed Hotel's Share</u>	<u>Occupancy Room-nights</u>	<u>Percent</u>
1985	166,000	40%	66,500	61%
1986	173,000	42	72,600	66
1987	175,000	44	77,000	70
1988	177,000	44	77,900	71
1989	179,000	44	78,800	72
1990	181,000	44	79,900	73
1991	183,000	44	81,000	74
1992	185,000	44	81,000	74
1993	187,000	43	81,000	74
1994	189,000	43	81,000	74

Site Evaluation:

Part of Jackson Square

The site of the proposed hotel is part of the downtown re-development known as the Lloyd D. Jackson Square. The re-developed area involves 43 areas at the west end of the established business and retail core and is bounded by Main, Bay, Merrick and James Streets.

The Square contains	Also contained in the Square is the Hamilton Place theatre and auditorium, the art gallery, the central library, the Board of Education, and the Hamilton Convention Centre. In addition, there are 300,000 square feet of retail space in the Lloyd D. Jackson Mall, anchored by Eaton's and Marks & Spencer. This retail space is intended to be directly accessible from the hotel. Three towers of office space, including one dedicated to the Provincial Government, are currently developed. A fourth tower is scheduled to begin construction during the summer of 1981.
Topography is flat	The topography of the Central Business District in general and the proposed site in particular is essentially flat. Subsurface conditions have not been determined being beyond the scope of our study.
Visibility restricted	Visibility from all angles would be restricted by surrounding high rise developments. This factor will be mitigated to some extent by the overall prominence of the Jackson Square Development.
Access to site	Access to the site would occur from King Street, part of a one-way system which exists throughout the downtown core. With traffic on King moving east to west, this may offer difficulties for travellers entering the City by car from the west.
Linkage to Convention Centre	The cost of providing the above-grade pedestrian linkage to the Hamilton Convention Centre will be borne by the City.
Strong support	We are aware of no zoning or other municipal regulations which would prohibit or restrict the proposed hotel

development. There is most clearly strong support for the project from all sectors of industry as well as from the municipal government.

III. FINANCIAL ANALYSIS

Recommended facilities It is our conclusion that the City of Hamilton would be best serviced by a hotel incorporating the following facilities:

- 300 guest rooms (including 30 suites)
- 180-seat coffee shop
- 120-seat dining room
- 60-seat lobby bar
- 40-seat poolside lounge
- 250-seat cocktail lounge
- Private meeting/dining rooms, total complement approximately 2,000 to 2,500 square feet
- Banquet facilities for 500 persons
- Recreation/fitness facilities, including swimming pool.

ESTIMATED OPERATING RESULTS

EXHIBIT A

In EXHIBIT A (Appendix), we present a summary of our estimates of revenues and expenses for the proposed 300-room hotel for the years from 1985 to 1994 inclusive.

Quality of hotel

All revenues and expenses are based on the facilities outlined above. In preparing our estimates, we have assumed the following:

- The first complete year of operation will be 1985;
- All guest rooms will contain those amenities expected of a first-class hotel;
- All facilities will be of superior quality and will be maintained to the highest standard;
- A high standard of service will exist throughout the hotel;
- The hotel will be aggressively promoted and competently managed by a recognized hotel chain.
- The inflation rates used in our projections are as follows:

<u>Year</u>	<u>Overall</u>	<u>Food</u>	<u>Energy</u>
1981	10.2%	12.0%	21.9%
1982	9.4	8.0	14.2
1983	8.8	8.0	12.1
1984	8.6	8.0	12.6
1985	8.2	8.0	11.5
1986-1994	8.0	8.0	11.0

ROOMS DEPARTMENT

Average room rate

The findings of our market analysis, including the quality and facilities of competing hotels, are the basis for the projected average room rate (ARR). The 1981 ARR in the existing properties is between \$40.00 and \$41.00. It is our opinion that a new hotel, if available today, could expect to earn an average room rate of \$45.00.

Inflated to 1985
dollars

In reviewing the changes in the ARR over the past five years, we have determined that annual increases follow the rate of inflation. In determining the ARR throughout the period covered by our financial estimates, we have assumed that the 1981 base of \$45.00 is inflated to \$66.10 by 1985 and further increased by 8% thereafter.

Expenses

Operating expenses for the Rooms Department are based on industry averages and results achieved by comparable first-class hotels. Our estimate of payroll is derived from a 1980 cost of \$7.70 per occupied room, inflated to 1985 dollars, with employee benefits set at 16% of that cost. Other direct operating expenses are set at 8% of department revenue for the first year of operation, declining to 7.5% in the second year, and to 7% in the third and subsequent years.

TELEPHONE DEPARTMENT

Revenue and expense

Revenue for this department is based on revenue per occupied room as reported by comparable Central Business District hotels. Toll charges are estimated at 67% of revenues and equipment rentals and payroll are based on industry averages modified to meet the specific requirements of the proposed hotel.

FOOD AND BEVERAGE

Revenues

Revenues in this department are based on "per seat" results reported for comparable food and beverage operations. In estimating an appropriate level of sales, we considered the competitive advantage available to such outlets in a convention-oriented hotel.

Expenses

Stabilized expenses are estimated as follows:

Cost of Sales:

Food	37% of food sales
Beverage	28% of beverage sales
Payroll	32% of food and beverage sales
Employee Benefits	18% of payroll
Other Expenses	8% of food and beverage sales

Increasing efficiency

Our estimates are based on the assumption that the above costs are those of established and well-controlled outlets. To respond to the normally less efficient opening period, we have increased our estimates as follows:

Cost of Sales:

Food	+1% of food sales in 1985
Beverage	+2% of beverage sales in 1985
Payroll	+2% of food and beverage sales in 1985
Other Expenses	+3% of food and beverage sales in 1985
	+1% of food and beverage sales in 1986

UNDISTRIBUTED OPERATING EXPENSES:

Administrative and general

Administrative and general expenses exclusive of Management fees, are projected at 8.0% of total revenues in 1985, declining to 6.8% by the fourth year of operation.

Marketing	An active marketing program will be required during the initial years of operation in order to capture anticipated market share. We have estimated that the 1985 budget will be 4% of total revenue, declining to 3.5% in 1986, and to 3% thereafter. We have assumed that pre-opening marketing expenditures will be capitalized.
Energy	It is expected that energy costs will continue to rise dramatically during the period of analysis. As a result, and in spite of the high use of energy-saving technologies assumed to be inherent in the hotel design, we estimate per room energy costs in the first year to be \$1,578 in 1985 dollars. This cost is subject to an 11% annual inflation.
Property operation and maintenance	It is anticipated that these costs will be offset during the first two years by manufacturers' warranties and guarantees. To reflect this assumption, property operation and maintenance expenses are estimated at \$600 per room during the first year of operation, increasing to \$800 in year two, and to \$1,000 thereafter. The above amounts are all in 1980 dollars and are subject to 8% annual inflation.
Other	No provision has been made for revenue from parking or other rental income not normally associated with hotel operations. Further, we have not provided for property and business taxes, land rent, building and contents insurance, depreciation, income taxes, reserve for replacements, management or franchise fees, or debt service.

EXHIBIT A

Tuesday JUN 30, 1981 10:52

300 ROOM HOTEL, HAMILTON WITH BANQUET

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
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MARKET DATA

ROOMS	300	300	300	300	300	300	300	300	300	300
Avg Room Rate	\$66	\$71	\$77	\$83	\$90	\$97	\$105	\$113	\$122	\$132
OCC RATE	61%	66%	70%	71%	72%	73%	74%	74%	74%	74%
OCCUPIED ROOMS	66795	72270	76650	77745	78840	79935	81030	81030	81030	81030

REVENUE (THOUSANDS \$)

ROOM REVENUE	4408	5151	5901	6464	7079	7752	8487	9165	9899	10691
PUBLIC ROOMS REV	110	129	148	162	177	194	212	229	247	267
ROOM DEPT TOTAL	4519	5280	6048	6625	7256	7946	8699	9395	10146	10958
FOOD	3375	3645	3937	4252	4592	4960	5356	5785	6248	6747
BEVERAGES	2006	2167	2340	2528	2730	2948	3184	3439	3714	4011
F & B DEPT TOTAL	5382	5812	6277	6780	7322	7908	8540	9224	9961	10758
TELEPHONE DEPT	226	264	302	331	363	397	435	469	507	547
TOTAL REVENUE	10126	11356	12628	13736	14941	16250	17674	19088	20615	22264

EXPENSES (THOUSANDS \$)

ROOM DEPARTMENT

ROOM PAYROLL	793	926	1061	1163	1273	1394	1526	1648	1780	1923
ROOM EMPL BEN	127	148	170	186	204	223	244	264	285	308
OTHER	361	396	423	464	508	556	609	658	710	767
ROOM DEPT EXPENS	1281	1471	1654	1812	1985	2173	2379	2570	2775	2997

FOOD & BEVERAGE DEPARTMENT

COST OF FOOD	1283	1349	1457	1573	1699	1835	1982	2140	2312	2497
COST OF BEVERAGE	602	607	655	708	764	825	892	963	1040	1123
F & B PAYROLL	1830	1860	2009	2169	2343	2530	2733	2952	3188	3443
F & B EMPL BEN	329	335	362	391	422	455	492	531	574	620
F & B OTHER	592	523	502	542	586	633	683	738	797	861
F & B DEPT EXPEN	4636	4673	4985	5383	5814	6279	6781	7324	7910	8543

TELEPHONE DEPARTMENT

COST OF SALES	151	177	202	222	243	266	291	314	340	367
EQUIPMENT RENTAL	103	111	120	129	140	151	163	176	190	205
PHONE DEPT PAYRO	90	97	105	113	122	132	143	154	167	180
PHONE EMPL BEN	14	16	17	18	20	21	23	25	27	29
PHONE DEPT EXPEN	358	400	444	483	525	570	620	669	723	781
TOTAL DEPT EXPEN	6275	6544	7083	7678	8323	9023	9781	10563	11408	12321

DEPARTMENT PROFITS

ROOM DEPT PROFIT	3237	3809	4394	4813	5271	5772	6319	6925	7371	7961
F & B DEPT PROFIT	746	1139	1293	1396	1508	1629	1759	1900	2052	2216
PHONE DEPT PROFIT	-132	-137	-142	-152	-162	-173	-185	-200	-216	-233
GROSS OPERATING	3851	4812	5545	6058	6617	7228	7893	8525	9207	9943

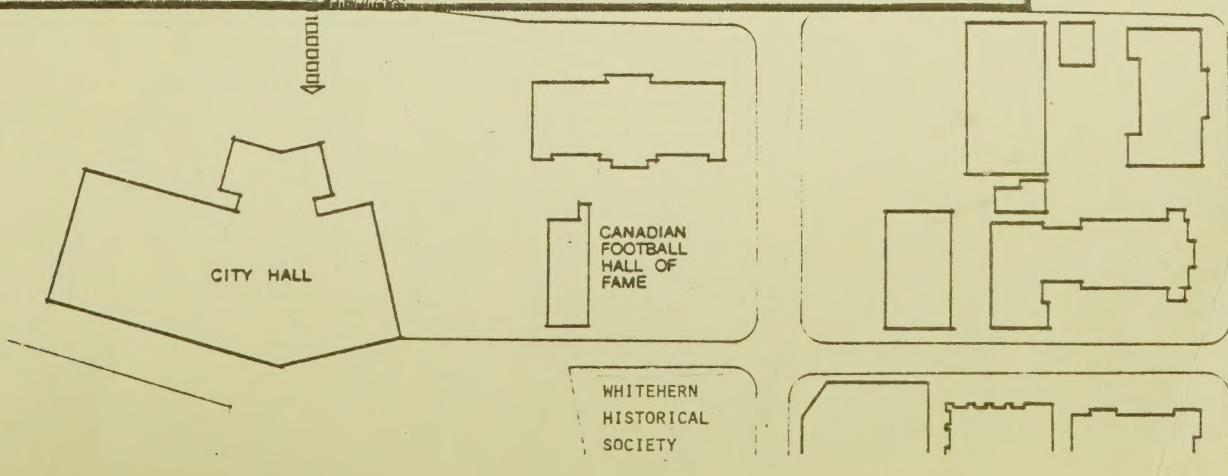
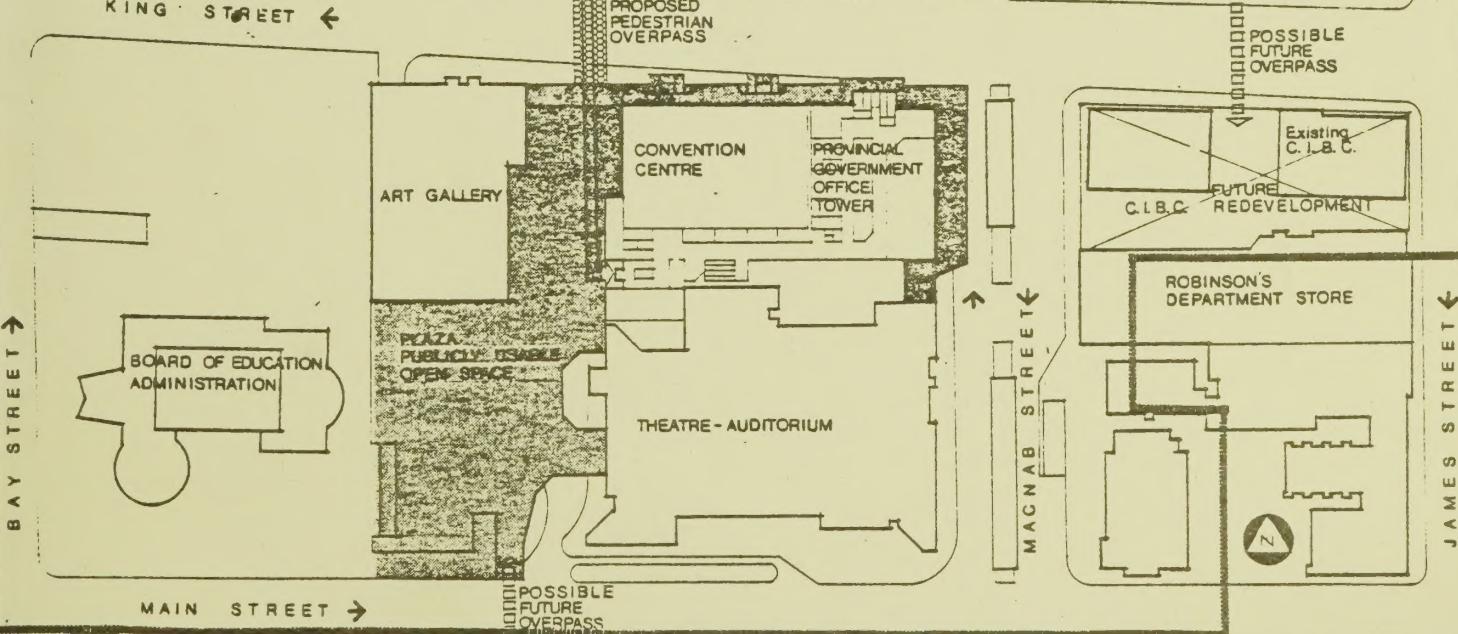
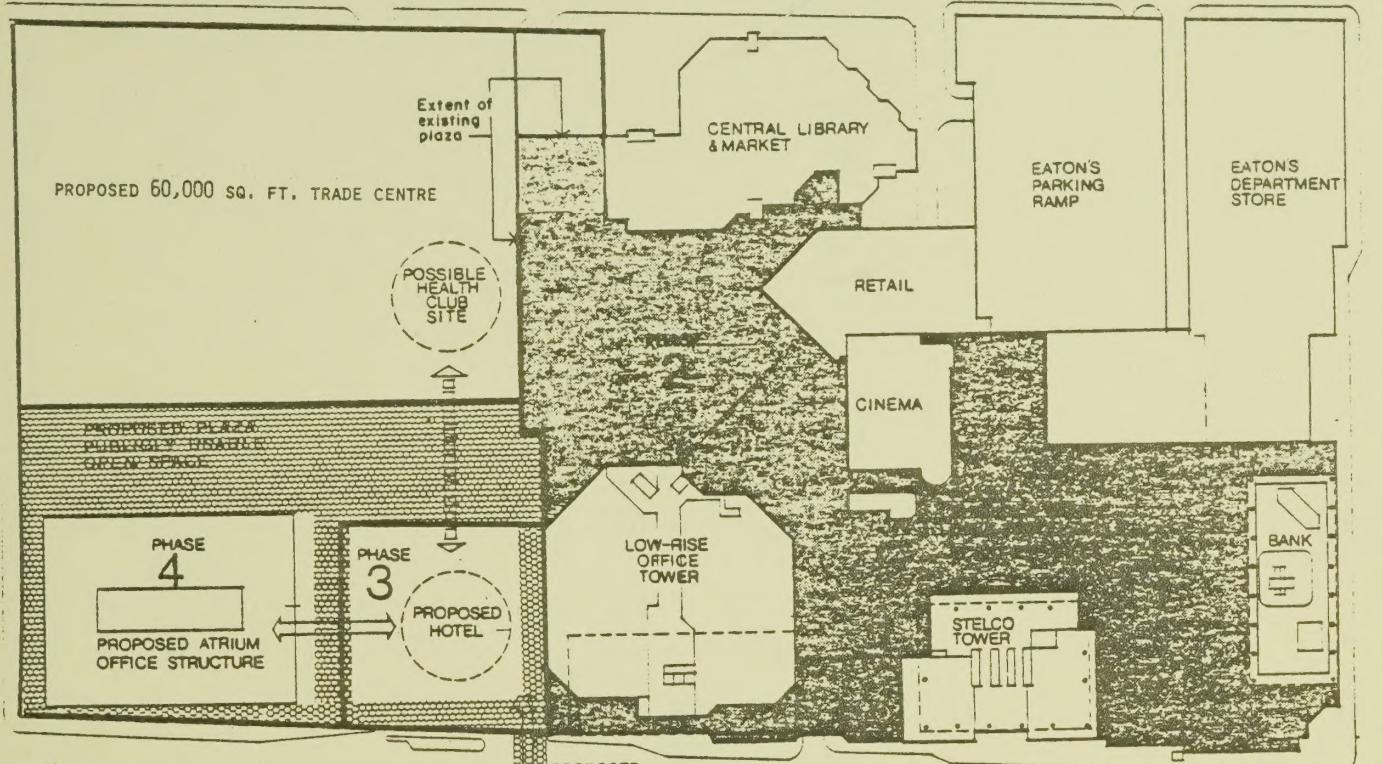
UNDISTRIBUTED EXPENSES

ADMIN & GENERAL	810	840	884	934	1016	1105	1202	1298	1402	1514
MARKETING	405	397	379	412	448	488	530	573	618	668
ENERGY	473	525	583	647	719	798	885	983	1091	1211
PROP OPNS MAINT	264	381	515	555	600	648	699	755	816	881
TOTAL UNDISTRIBU	1953	2144	2361	2549	2783	3038	3316	3609	3927	4274
TOTAL EXPENSES	8228	8689	9443	10227	11106	12061	13097	14172	15335	16595

HOUSE PROFIT	1898	2668	3184	3509	3835	4189	4577	4916	5279	5669
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